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COUNTY OF LOS ANGELES

DEPARTMENT OF PUBLIC WORKS

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IN REPLY PLEASE
REFER TO FILE: **PJ-2**

November 14, 2002

The Honorable Board of Supervisors
County of Los Angeles
383 Kenneth Hahn Hall of Administration
500 West Temple Street
Los Angeles, CA 90012

Dear Supervisors:

**LAC+USC MEDICAL CENTER REPLACEMENT PROJECT
APPROVE BUDGET MODIFICATIONS
AWARD CONSTRUCTION CONTRACT
SPECS. 6550; C.P. 70787
SUPERVISORIAL DISTRICT 1
3 VOTES**

**JOINT RECOMMENDATION WITH THE CHIEF ADMINISTRATIVE OFFICER AND THE
DIRECTOR OF HEALTH SERVICES THAT YOUR BOARD:**

1. Approve the revised project budget of \$820,558,000, an increase of \$2,558,000, to account for various adjustments to the project budget as shown in Enclosure A.
2. Award and authorize the Director of Public Works to execute a construction contract in the amount of \$497,883,000 to McCarthy, Clark, Hunt, a Joint Venture, for the LAC+USC Medical Center Replacement Project, to be funded from Federal and State earthquake disaster assistance monies and the issuance of short-, medium- and long-term financing, and to establish the effective contract date following receipt of approved Faithful Performance and Labor and Materials Bonds and insurance certificates filed by the contractor.

3. Approve the Chief Administrative Officer's plan to manage the County's exposure to earthquake damage during the project's construction through a program of self insurance to be funded on an as-needed basis through the issuance of short-term financing.

PURPOSE/JUSTIFICATION OF RECOMMENDED ACTION

The recommended actions will allow construction of the 1.5-million-square-foot, 600-bed LAC+USC Medical Center Replacement Project to proceed and be completed in January 2007.

Revised Project Budget

Your Board has previously approved an overall project cost of \$818,000,000. Based upon a favorable construction bid, changes in the allocation of equipment procurement responsibility between the capital project and Health Services, and other adjustments to reflect actual and anticipated project costs, we are recommending an increase in the project budget to \$820,558,000. The recommended revision in the project cost represents an increase of \$2,558,000 or 0.31 percent from the previously approved project budget. A detail of the recommended adjustments is provided in Enclosure A and discussed further in the Fiscal Impact/Financing section of this letter.

Award of Construction Contract

Hospital construction represents the second phase of the construction program for the project. The first phase, site preparation, began in March 2001 and was substantially completed in October 2002. The second phase entails the construction of an Outpatient Building, Central Plant, Diagnostic and Treatment Facility, and Inpatient Tower, as well as final site work. Construction work, which will begin with the execution of the recommended contract, is scheduled for completion in January 2007. A summary of the Project Schedule is provided in Enclosure A.

The recommended award of the construction contract for the project represents the culmination of an extensive prequalification and bid process. The prequalification process approved by your Board for the project yielded two qualified general contractors, PCL Construction Services, Inc., and McCarthy, Clark, Hunt, a Joint Venture (MCH). PCL Construction formally withdrew from bidding this project and, as a result, only MCH submitted a bid. The MCH bid of \$497,883,000 is within the fair construction cost estimate approved by your Board, which projected that bids would be between \$392,000,000 and

\$539,000,000, and is within one and one-half percent of our reconciled fair construction cost estimate. Therefore, award of this construction contract is recommended. A Bid Summary is provided in Enclosure B.

Management of Earthquake Risk During Project Construction

In order to manage the project's exposure to earthquake damage during construction in the most cost-effective manner, MCH is not required to maintain earthquake insurance under the proposed construction contract. It is recommended that the County self-insure against potential earthquake damage during the project's construction.

This recommendation is based on a review of the feasibility and adequacy of the County's standard insurance requirements regarding insurance coverages against earthquakes, acts of terrorism, and consequential damages undertaken in response to a bid inquiry during the bidding phase. The review was performed by Public Works, County Counsel, CAO, and the CAO's insurance consultants and determined that due to the September 11, 2001, terrorist attack on the United States, acts of terrorism coverage is not available at a reasonable premium and earthquake coverage for the full value of this project is not available from reputable insurance companies worldwide.

To determine the potential costs, Public Works commissioned an earthquake damage risk analysis that established the net expected loss and probable maximum loss from a maximum credible earthquake at each phase of construction. That analysis determined that the maximum probable damage would range from \$2,800,000 early in construction to \$27,900,000 near the end of construction during a maximum credible earthquake. The analysis also indicated that the probable cost increase to the construction bid if the contractor were to provide the earthquake coverage would likely be as high as \$30,900,000, including a minimum insurance premium cost of \$7,000,000 for only \$50,000,000 of coverage with a potential deductible of nearly \$24,000,000. Therefore, the CAO recommended deleting the requirement for the contractor to carry earthquake and acts of terrorism insurance from the contract documents and, alternatively, to self-insure against these risks (see Fiscal Impact for implementation).

In addition, as a result of the bid inquiry, we also agreed to limit the contractor's liability for consequential damages to the limits of the Contractor's General Liability Insurance, which for this project will be \$100,000,000.

Implementation of Strategic Plan Goals

The recommended actions are consistent with the County's Strategic Plan Goals of Service Excellence and Fiscal Responsibility by investing in cost-effective, state-of-the-art public health care facilities. These actions are also consistent with the County's Strategic Plan Goal of Children and Families Well-Being by providing a safer public health infrastructure.

FISCAL IMPACT/FINANCING

The revised project budget of \$820,558,000 reflects an increase of \$2,558,000 from the budget previously approved by your Board. The revised budget includes increases to the project budget for additional fixed medical equipment, utility relocations, and permit fees, which are offset in large part by other project savings, including a \$6,400,000 savings in construction costs as a result of the MCH bid.

The adjustments to the budget, which are also detailed in Enclosure A, include:

- A reduction of \$50,000 in land acquisition costs that was identified in a final reconciliation of those costs. Such costs were incurred as part of the previous 946-bed replacement project but were carried forward to this project for accounting and depreciation purposes.
- An increase of \$1,456,500 in permits and fees to account for utility relocations provided by the City of Los Angeles Department of Water and Power, funded by a deposit made to DWP as part of the previous 946-bed replacement project.
- A reduction of \$6,400,000 from the construction budget items based upon the bid received.
- An increase in fixed medical equipment costs of \$13,756,000 resulting from the inclusion within the project budget of all fixed equipment necessary to complete construction and obtain a permit from the Office of Statewide Health Planning and Development (OSHPD). This change will consolidate the procurement cost and coordination responsibility for this equipment with Public Works and eliminate the obligation for Health Services to fund any medical equipment from its operating resources until Fiscal Year 2005-06.
- A decrease in fixed furniture of \$2,692,000 based upon the final furniture and furnishings schedule.

- Decreases in architectural/engineering services and consultant and vendor services of \$2,500,000 and \$3,102,000, respectively, based upon a reduction in contingency amounts required under the approved contracts. The remaining contingencies will be maintained at ten percent of the remaining contract values. These contingencies may only be used upon a recommendation by Public Works and approval by the CAO and are subject to the usual limitations on delegated contracting authority.
- An increase of \$1,955,500 for permits and fees to reflect anticipated permitting costs for OSHPD, the City of Los Angeles, and the Fire Department funded by a deposit made to OSHPD for plan check services on the previous 946-bed replacement facility.
- An increase in County services of \$134,000 comprised of a reduction in the contingency for Public Works' services of \$1,000,000 offset by an allocation of \$1,134,000 for the Office of Affirmative Action Compliance for the Local Worker Hiring Program (\$629,000) and for Equal Employment Opportunity Compliance monitoring (\$505,000).

In addition, the revised project budget reflects the reallocation of existing funds among line items to clarify how those funds will be expended, as follows:

- A reallocation of \$2,200,000 from make-ready activities to construction contingency for removal of contaminated soils that was unused during the site preparation phase but is anticipated to be required during final grading for the project, which is included in this second phase.
- The inclusion of \$16,200,000 to the construction cost line item for telecommunications and data infrastructure equipment, which is now part of the base bid, but was previously budgeted as part of the equipment line item.

The recommended project cost increase will not require additional County funding. The project is funded through Federal and State disaster aid monies (\$468,970,000), a Federal Emergency Management Agency Hazard Mitigation Grant (\$1,820,000), and various miscellaneous revenue sources (e.g., interest earnings) of approximately \$1,000,000. In addition, approximately \$17,310,000 of the project costs were paid as part of the previous 946-bed replacement facility, including \$12,250,000 in land acquisition costs, \$1,460,000 of utility relocations, and \$3,600,000 of the OSHPD permit fees.

The remaining \$331,460,000 of project costs will be funded through a financing program managed by the Treasurer and Tax Collector, as recommended by the Treasurer and Tax Collector and CAO in a related item on the November 26, 2002, agenda. Debt service will be paid by Health Services as indicated in the related item.

Appropriation for self-insurance against earthquake damage to the project during construction will be included in the LAC+USC Medical Center Replacement Fund budget beginning in Fiscal Year 2003-04. Appropriation amounts will be based upon a potential loss level that the risk analysis determined to be appropriate for the phase of construction. The appropriation recommended at that time will be offset by an authorization by your Board to issue short-term financing. Such an issuance of financing would only be required in the event of damage from an earthquake or acts of terrorism.

One-Time Startup Costs

Significant one-time startup costs are anticipated for the new facility, including up to \$105,000,000 in nonfixed medical equipment, furnishings and furniture, up to \$90,000,000 to \$100,000,000 for the development, procurement, and installation of an integrated electronic medical records system, and between \$25,000,000 to \$35,000,000 for moving and transition costs.

Health Services, with the assistance of Public Works, its consultants, and the CAO, is currently reviewing all of the medical center's existing medical equipment and future annual purchases in order to identify the maximum amount of equipment that will be able to be relocated into the new facility, thus reducing the total amount of new equipment that will need to be procured for the new facility.

Health Services will be refining the requirements and cost estimates for all of the one-time costs and, in conjunction with the CAO, developing a funding strategy to accommodate the one-time startup costs in light of the other reductions required under Health Services' Strategic Plan. We will report back to your Board when the funding strategy has been determined.

Ongoing Operating Costs

In July 1998, operating cost savings at LAC+USC Medical Center resulting from the project were estimated at approximately \$86,000,000, excluding the costs of increased debt service resulting from the project. Based on Health Services' ongoing System Redesign, it is currently anticipated that any operating cost savings from the replacement project will be utilized to pay debt service costs, as outlined in the related item, or will be realized as

part of the System Redesign prior to the actual opening of the new facility. The impact of the project on operating costs will be reevaluated upon approval and implementation of the System Redesign.

FACTS AND PROVISIONS/LEGAL REQUIREMENTS

As requested by your Board on August 12, 1997, and as a threshold requirement for consideration for contract award, MCH is willing to consider Greater Avenues for Independence participants for future employment. MCH is also found in full compliance with Los Angeles County Code Chapter 2.200 (Child Support Compliance Program) and Chapter 2.203 (Contractor Employee Jury Services Program).

A standard contract, in the form previously approved by County Counsel, will be used. The standard Board-directed clauses that provide for contract termination, renegotiation, and hiring of qualified displaced County employees will be included in the contract.

As required by your Board, language has been incorporated into the project specifications stating that the contractor shall notify its employees, and shall require each subcontractor to notify its employees, that they may be eligible for the Federal Earned Income Credit under the Federal income tax laws.

The project specifications contain provisions requiring the contractor to report solicitations of improper consideration by County employees and allowing the County to terminate the contract if it is found that MCH offered or gave improper consideration to County employees.

To ensure that the contract is awarded to a responsible contractor with a satisfactory history of performance, the bidder was required to report violations of the False Claims Act, their civil litigation history, and information regarding prior criminal convictions.

ENVIRONMENTAL DOCUMENTATION

On June 6, 2000, your Board certified the Environmental Impact Report/Environmental Assessment for the project. On June 7, 2000, the Federal Emergency Management Agency issued a Finding of No Significant Impact for the project and approved the EIR/EA.

CONTRACTING PROCESS

As requested by your Board on February 2, 1998, this contract opportunity was listed on the "Doing Business with the County" website (Enclosure C).

Participation by Community Business Enterprises in the project is strongly encouraged through inclusion in the construction contract documents of quantifiable and enforceable CBE good faith efforts specifically approved for this contract. Additionally, Local Worker Hiring Program criteria, specifically approved for this construction contract to encourage hiring of local workers and proof by the contractor of specific good faith efforts to encourage local hiring, has been included as part of the contract. MCH's Community Business Enterprise participation fact sheet and three-year contracting history are on file with Public Works.

On June 11, 2002, your Board approved the list of prequalified general contractors and first-tier subcontractors for the project and adopted amended plans and specifications for construction of the project. These approvals initiated the bidding period, which began June 12, 2002, and ended September 12, 2002.

The Board-approved prequalification process for this project yielded two qualified general contractors: PCL Construction and MCH. On June 10, 2002, Public Works informed your Board that PCL Construction might withdraw from bidding, which would result in receipt of only one bid. Public Works also indicated compelling reasons to continue the bid process and that County Counsel had determined accepting a single bid is legal. On July 17, 2002, PCL Construction formally withdrew from bidding this project.

On September 12, 2002, a single bid was received from MCH in the amount of \$497,883,000. Enclosure B provides a summary of the project bid.

Public Works produced two independent construction cost estimates, prepared by nationally recognized consultants, that have been reconciled to within one-half of one percent of each other. These estimates were used to determine that the MCH lump sum low bid is within one and one-half percent of our reconciled estimate and is considered fair and reasonable.

MCH has offered to participate in a partnered value engineering process with the County to explore methods for reducing the project cost without changing program elements or compromising the life-cycle cost value of the building systems. Although Public Works conducted value engineering during the design phase, MCH has explained they have successfully conducted additional value engineering analysis with other clients during the

post-award/preconstruction period and that this effort has resulted in reducing project construction costs by optimizing building systems through detailed review with the successful subcontractors and vendors selected by MCH.

Upon execution of the construction contract, Public Works intends to conduct a value engineering process with MCH, the architectural/engineering team and its other consultants, as well as the CAO and Health Services. We will report the results to your Board at the end of the process.

IMPACT ON CURRENT SERVICES (OR PROJECTS)

The existing hospital and all patient care services will remain operational throughout the entire construction period. The project specifications include instructions to the contractor to comply with specific construction constraints from the EIR/EA that will be used to control construction-generated dust, noise, and traffic within acceptable thresholds.

CONCLUSION

Please return one adopted copy of this letter to the Chief Administrative Office (Capital Projects), Health Services, and Public Works.

Respectfully submitted,

JAMES A. NOYES
Director of Public Works

DAVID E. JANSSEN
Chief Administrative Officer

THOMAS L. GARTHWAITE, M.D.
Director of Health Services

Enc. 3

cc: County Counsel
Department of Public Social Services (GAIN Program)
Office of Affirmative Action Compliance

November 14, 2002

ENCLOSURE A

**LAC+USC MEDICAL CENTER REPLACEMENT PROJECT
APPROVE BUDGET MODIFICATIONS
AWARD CONSTRUCTION CONTRACT
SPECS. 6550; C.P. 70787**

I. PROJECT SCHEDULE

Project Activity	Scheduled Completion Date	Revised Completion Date	Date Completed
Board Award Design Contract	07/98		07/98
Construction Documents	09/00		09/00
Jurisdictional Approvals	05/02		05/02
Award of Construction	09/02	11/02	
Construction Start	10/02	12/02	
Acceptance of Project	02/07	04/07	

November 14, 2002

ENCLOSURE B

**LAC+USC MEDICAL CENTER REPLACEMENT PROJECT
APPROVE BUDGET MODIFICATIONS
AWARD CONSTRUCTION CONTRACT
BID SUMMARY
SPECS. 6550; C.P. 70787**

The hospital construction work will include an eight-story 681,000-square-foot 600-bed Inpatient Tower; five-story 430,000-gross-square-foot base isolated Diagnostic and Treatment Center; seven-story 340,000-gross-square-foot Outpatient Clinic Building; and 60,000-square-foot below-grade Central Plant. Finally, the work will include landscaping and hardscaping for the project, including planting and site lighting around the new buildings as well as new circulation corridors and parking areas.

Call for Bids Date:

February 13, 2002

Bid Opening Date:

September 12, 2002

Bid Summary:

Bidder

Total Lump Sum Bid

McCarthy, Clark, Hunt, a Joint Venture

\$497,883,000

Financial Information:

Public Works' fair construction cost estimate was between \$392,000,000 and \$539,000,000.

November 14, 2002

ENCLOSURE C

**LAC+USC MEDICAL CENTER REPLACEMENT PROJECT
APPROVE BUDGET MODIFICATIONS
AWARD CONSTRUCTION CONTRACT**

BID SOLICITATION

(See Attached)